

**Before the  
Committee on Agriculture  
Subcommittee on Livestock and Horticulture**

**TESTIMONY ON BEHALF OF  
TEXAS ASSOCIATION OF DAIRYMEN and  
DAIRY PRODUCERS OF NEW MEXICO**

by Donald De Jong  
Dublin, Texas  
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Chairman Pombo, members of the committee, my name is Donald De Jong and I, with my family operate a dairy farm near Dublin, Texas. I am testifying today on behalf of the Texas Association of Dairymen (TAD), an organization in which I am a member, and Dairy Producers of New Mexico (DPNM) a trade association in New Mexico with which we work on regional and national issues.

On behalf of both organizations, I wish to thank the Chairman and the members of the committee for the opportunity to provide this testimony.

TAD is a voluntary producer organization that advocates the interests of its member dairy producers before state and federal agencies, courts, and Congress. It has 150 members who, combined, market approximately 2 billion pounds of milk in Texas. Its members supply the dairy needs of consumers in most of the metropolitan areas of Texas.

DPNM, too, is a voluntary producer organization that advocates the interests of its member dairy producers in New Mexico and West Texas as well as in federal arenas such as the USDA, EPA, the courts, and Congress. The purpose of Dairy Producers of New Mexico is to enhance the existing New Mexico dairy industry. It has 134 members representing 84% of the producers and over 90% of the milk produced in New Mexico.

Texas and New Mexico are major milk producing states, ranking in 2000 as number 7 and 10 in total production respectively. With the exception of some milk from the northeastern portion of Texas going into the Southeast Marketing Area, New Mexico and Texas producers primarily supply the Southwestern Milk Marketing area. The members of both associations are also members of milk marketing cooperatives such as Dairy Farmers of America, Select Milk Producers, Elite Milk Producers, and others.

The average herd size of dairy farms in Texas is 260 and in New Mexico is 1400. These are family farms. I with my wife operate our dairy farm in Dublin. I have two brothers who operate similar dairy farms nearby and we cooperate on a lot of issues. I have plans to bring my children into the dairy operation. My situation is typical of the other members of TAD and DPNM..

Family farms of this size represent the major source of milk in the Nation. According to NASS, in 2000 53.8 percent of the Nation's milk was produced by 7.5 percent of the Nation's dairy farmers who milk 200 head of cattle or more. In 1995, the year before passage of the FAIR Act of 1996, operations with more than 200 head represented 5% of the dairy operations and produced over 39% of the milk. Two tables showing the percent of milk produced and operations by size group for 1995 and 2000 and a chart comparing U.S. production for each of those years are attached.

It is important that any future dairy policy respect the needs and concerns of this generation of dairy farmers at these herd sizes. We do not in any way suggest that others be ignored, but we certainly must understand that a growing portion of the Nation's milk supply will come from dairy farms of more than 200 cows. A policy that is predicated only on addressing the legitimate concerns of 50% of the producers producing less than ten percent of the milk will certainly benefit them and their communities. The challenge is that it may not benefit the other dairy farmers. The goal needs to be not to hurt the majority of the milk production in the process.

These two dairy organizations strongly believe that the market-place is the best place to receive income, control supply and demand, and dictate the location and size of dairy farms. They support continuation of market-oriented programs that allow dairy farmers to receive income from the market-place. Such programs promote the most efficient, long-term economic stability of the dairy industry. Government has an important role in providing a safety net in the form of price support and export assistance and maintenance of marketing orders. To make these work it is important that there be full and open trade of milk and milk products throughout the Nation and that world trade be expanded and supported. We support programs that support these fundamental premises and oppose those that interfere or impede open domestic trade in milk and milk products.

### **Federal Milk Marketing Orders.**

TAD and DPNM support the continuation of the FMMO. No government program has done more to stabilize consumer supply and prices of good and wholesome milk while aiding producer income than the FMMO. Major changes have been threatened or implemented to the FMMO without abatement during the last six years with at least two changes in the basic formula pricing, changes in the pricing of commodities, changes in Class II pricing, merger of federal orders and other changes. We are awaiting the final rule resulting from the manufacturing price hearing held last May. We hope, and anticipate, that it will impose little to no change to the interim rule now in effect so that we as an industry can evaluate it over several years.

Having said that we want no change, we do request that the exemption for Clark County, Nevada that was included in the 2000 appropriations be eliminated. It does not directly impact our milk marketings, but the creation on an ad hoc basis for such exemptions by Congress is not the kind of national policy that fosters the development of the dairy industry. It is our understanding that the exemption was in response to the imposition of Option 1B in the original final rule for FMMO. With the Congressional mandate of Option 1A, it no longer has any significance but to make the pricing in nearby markets of Los Angeles and Phoenix potentially unfair.

### **Price Support**

We support the renewal of the dairy price support program at \$9.90. That price provides a needed safety net to protect against ruinous pricing during some market conditions. It is high enough to ensure a steady supply of good and wholesome milk to the consuming public but low enough to discourage producers from over producing and allow the market to return to equilibrium. I might add it is important that the \$9.90 work for cheese and that the excessive prices for non fat dry milk and butter not be part of the continuation.

### **Compacts**

Adequate income for dairy farmers is our primary concern. Although we are in a competitive market, we are also concerned that other producers in other regions, too, receive adequate payment for their milk. Our Nation is not so small that a region is protected from producer losses in another region. We support market solutions for milk pricing. By our own experience we are convinced that when cooperatives and handlers work together to address the need to return value to the farm, acceptable solutions can be found.

I am a dairyman. All of the members of TAD and DPNM are dairymen. We, like other dairymen where ever they are located, are concerned about the money that shows up in the milk check each month. That money is not just important to us, but it is important to our families, our employees, our vendors, our communities, and our bankers and investors.

About seven years ago, producers in New Mexico and Texas were facing ruinous milk prices. It was very serious and something had to be done to increase the amount of money we received for our milk. The choices came to two basic ones: Look for government help, or do it ourselves.

We chose to do it ourselves. What we did through the private sector has proven so successful that last month, TAD testified in opposition to legislation to allow Texas to participate in the Southern Dairy Compact. TAD took this position to protect the integrity of a private sector agreement between dairy cooperatives and processors that I will describe in a minute.

When we chose to improve our own prices, the first thing we did was to create new, more efficient milk marketing cooperatives. That helped in some ways. In 1995 DPNM was directed by its membership to get all of the cooperatives in New Mexico to work together to reduce costs and encourage greater pay to producers. That initial effort led to one program that lead to yet others until we created the Texas-New Mexico Milk Marketing Agency. This "marketing agency in common" brought us more money.

First, without going to the plants for more money, we sought and corrected inefficiencies in our own milk marketing efforts. We trimmed the costs of cooperative operations to a fraction of what they had been which meant more of the money from buyers came to producers. We sent milk to the closest plant regardless of what cooperative had the producer as a member or the plant as a customer. This saved over 40 cents per hundredweight in transportation costs not to mention benefitting the environment by reducing the amount of fossil fuels used.

Since necessity is the mother of invention, the need for more markets directed us into the development of on-farm cold membrane processing of milk, which, in simple terms, concentrates milk by removing the water. This reduced the cost of moving the same solids in milk by two-thirds or more and expanded our marketing opportunities.

Once we cleaned up our own house, we then went to the buyers of our milk and asked how we could work with them to increase our income. As a result of listening to our buyers, we substantially improved the quality of our milk to increase shelf life and profitability to stores and plants, we scheduled milk to meet the needs of the plants, and found other ways to make our product more valuable. Finally, we turned the pricing program away from seeking extremely high prices during tight months and nothing during the heavier months to modest charges during the higher supply and no premiums during the tight months. The result was better pricing for plants and consumers and more money for us.

The marketing area that this encompassed is all of New Mexico and all but the extreme eastern portion of Texas. By way of comparison, it involves twice as much milk as the Northeast Compact area and includes more cities (three of the ten largest in the Nation) and a vast geographical area. There are no compact councils, no regulations, no government interference, just simple good-faith cooperation between producers and buyers. The result is that in 2000, we delivered to every dairyman as much as \$1.50 more per hundredweight (over a ten percent increase) than they would have received had we not made changes. The buyers of our milk were satisfied and consumers did not see higher prices. Compare that record with 90 cents the Northeast Compact claims for its producers.

I have taken this time to explain how we used marketing and negotiation to increase producer income to illustrate one very important point in the debate about Compacts too often overlooked or misstated. While support for Compacts does mean support for higher producer income, it does not follow that opposition to compacts is opposition to producers. As a dairyman that has been on both sides of the issues and actively involved in the kind of negotiations that have raised our income, I have come to firmly hold that we can do it ourselves, and do it better. Government policies that foster producer-plant cooperation will do more for dairy farmers than imposition of compact pricing will ever be able to do.

### **Environmental Issues**

These Southwestern producer organizations and their members respect the environment. Maintenance and enhancement of the environment in which we live and work is very important. Increasingly individuals and groups who disagree on how we should address the environmental concerns are now challenging dairy farmers in courts, legislatures, agencies and public opinion. These challenges to our practices are not based upon sound scientific basis.

Water quality standards should be based upon sound science. Those challenging the operations of livestock producers should be forced to prove their positions, not the other way around. Livestock producers should not be the only industry targeted in the cleaning up of rivers and other waterways.

It should be noted that in states with very strict environmental regulations, like Texas, compliance costs can reach such a level they accelerate consolidation within the dairy industry. As these regulations continue to ratchet upward at the state and federal level, they will constitute perhaps the greatest threat to sustainability of many dairy operations, small as well as the larger. I urge you to consider this overriding issue as you plot the future of dairy and livestock policy.

### **Direct Payments to farmers**

Direct payments to producers does not constitute sound dairy policy. Today almost half of the income of wheat farmers comes in the form of direct payments from the government compared with only one percent for dairy. The dairy industry does not wish to follow the path of the wheat program. We invest about \$3,500 per cow in equipment, land, facilities, and animals. These are long-term investments. We cannot make these investments if we are dependent upon government largesse. If direct payments are to become policy, then they should not be subject to payment limitations.

### **Milk Protein Concentrates (MPC)**

We support the Dayton Bill to impose on MPC imports the same restrictions as other dairy protein products. At the same time some correction of the butter-powder tilt will assist this as well. However, neither wet MPC or ultrafiltrated milk produced domestically should be restricted.

### **Dairy Export Incentive Program**

We support the continuation and expansion of DEIP. This is an important part of developing and maintaining international markets for our products. Under this program, administered by the Foreign Agricultural Service, CCC pays bonuses to exporters to facilitate export sales. All of the sales of the dairy products are made through normal commercial channels at competitive world prices.

### **Supply management**

Both DPNM and TAD oppose supply management programs. The market place works better than any program. Government imposition of supply management should not be part of any federal dairy policy because:

1. They will not work. Market supply and demand do a better job for both producers and consumers.

2. Naturally occurring supply factors such as temperature and rainfall in dairy regions of the country cause significant fluctuation in milk production from year to year. Neither the phenomena nor the impact are predictable. If supply management assumes that two-percent reduction is necessary and can in fact produce such a reduction, and on top of that there is a natural reduction of one or two percent, then there would be a shortage of milk. The demand for milk would be met by increasing imports and product substitutions.

To illustrate this point one need only look at the milk production in Texas this spring. We produced in Texas 15 % less milk than a year ago. Recent months were to be our “flush” period but we were down in milk. The primary cause of this reduction is a long drought last summer followed by almost non stop rain. Nationwide on a year to year basis, milk production is down three or more percent as compared to a year ago.

3. To be effective, value will attach to any supply management program. Farms with higher “base” would have more value than those without. In turn, such will distort the development of dairy farming in a manner that is not consistent with changes in the market place.

4. A supply management program will discourage the development of new, efficient and environmentally friendly dairy operations.

### **Johne's and other animal disease research and eradication programs**

Our country has a long and proud history of controlling animal diseases. Bovine TB and brucellosis are but a few of the successes. Nonetheless, to further protect the food supply we need to strengthen all of our programs of disease research and prevention, especially to protect against foreign animal diseases.

A domestic disease now infecting some dairy herds called “Johne's”, is a slow-developing wasting disease of cattle. The scope of its infection is not fully known, but it needs to be dealt with.

The National Johne's Working Group along with producer groups such as Dairy Producers of New Mexico, TAD, and NMPF have developed a program that not only will address Johne's but puts together an infra structure that can address other cattle diseases such as blue tongue and bovine leukosis. This program has four important aspects: 1) expand the testing and research of Johne's, 2) establish a program for dairy farmers to set up bio-security programs for their farms, 3) establish a progressive ranking of farm compliance with the program; and 4) provide for testing and compensated removal of infected animals by rendering them.

I want to focus on just one aspect of this program– compensated removing and rendering infected animals. The bio-security plans are voluntary. Part of the bio-security program requires the testing of thirty animals in the herd to determine the existence of Johne's. If a farmer learns he has an infected cow, the cow has less value in the marketplace. Without compensation for these animals, that fact alone would constitute a disincentive to participate in the program. Rendering is being suggested to avoid any market place impact by disposing of these animals.

### **Forward contracting**

Price risk management is important to agricultural producers including dairymen. The FMMO program with its twelve prices each year, the blending of income among all producers in the market, and other aspects provides risk management unheard of in other commodities. It is predicated upon collective--as opposed to individual-- activity. The dairy price support program provides a floor price that makes many of the floor protection programs-- such as buying puts-- less necessary in dairy than in other commodities. Imposing on this proven risk management program of long standing another form of risk management that was not designed to work in the collective environment as common in dairy, undermines this collective risk management. The forward contracting program that is now a pilot program should not be continued. It encourages individual risk management to the detriment of the FMMO's collective pricing efforts.

### **Other issues.**

DPNM opposes any requirement of listing of known ingredients that lists milk as an allergen.

### **Conclusion**

In conclusion we seek the development of sound, market-oriented dairy policy that encourages producers to be profitable, innovative, and efficient. We are proud to be part of this industry and are excited about its future.

Thank you.